

Message Text

CONFIDENTIAL

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ACTION EUR-12

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC PRIORITY 9138

INFO AMCONSUL CALGARY

AMCONSUL VANCOUVER

C O N F I D E N T I A L OTTAWA 1064

E.O. 11652: GDS

TAGS: ENRG, CA, US

SUBJECT: ENERGY: NATURAL GAS EXPORT PRICES

STADIS////////////////////////////////////

REF: OTTAWA 961

FOR EB KATZ AND EUR VINE FROM ENDERS

1. AS YOU ARE AWARE, THERE IS EXPECTED TO BE A MEETING OF FIRST MINISTERS IN OTTAWA SOMETIME IN APRIL TO HAMMER OUT AN AGREEMENT ON INCREASED DOMESTIC OIL AND NATURAL GAS PRICES TO TAKE EFFECT ON JULY 1 OR SOON THEREAFTER. CURRENTLY, DOMESTIC GAS PRICES ARE PEGGED AT 85 PERCENT OF OIL ON AN EQUIVALENT BTU BASIS AND THE TORONTO CITY-GATE PRICE OF \$1.25 PER MCF CAN BE EXPECTED TO RISE PROPORTIONATELY WHEN THE \$8.00 PER BARREL WELL-HEAD PRICE OF OIL IS INCREASED THIS SUMMER.

2. WHILE THERE IS NO REQUIREMENT THAT THE GAS EXPORT PRICE RISE SIMULTANEOUSLY WITH THE DOMESTIC PRICE, THE EXPORT PRICE CANNOT BE LESS THAN THE DOMESTIC PRICE AND THE NATIONAL ENERGY BOARD (NEB) BY REGULATION IS OBLIGATED TO RECOMMEND NEW MINIMUM EXPORT PRICES IF THERE HAS BEEN A SIGNIFICANT INCREASE IN PRICES FOR COMPETING GAS SUPPLIES OR FOR ALTERNATIVE ENERGY SOURCES IN THE EXPORT MARKETS SERVED BY CANADIAN GAS.

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EM THE B.C. ENERGY COMMISSION (BCEC), ON BEHALF OF THE

PROVINCIAL GOVERNMENT, HAS RECOMMENDED TO THE NEB AND THE CABINET, IN A BRIEF DATED FEBRUARY 28 (TRANSMITTED TO DEPARTMENT BY CONGEN VANCOUVER), THAT THE EXPORT PRICE BE INCREASED TO \$2.00 PER MCF ON NOVEMBER 1, 1976. IN SUPPORT OF THIS SUBMISSION, BCEC CLAIMS THAT THE CURRENT \$1.60 PER MCF BORDER PRICE FALLS SHORT OF COMPETITIVE PRICES IN THE U.S. PACIFIC NORTHWEST, THAT THE REPLACEMENT COST IN B.C. OF NATURAL GAS NOW BEING EXPORTED TO THE U.S. "CONSIDERABLY" EXCEEDS THIS PRICE, AND THAT THE EXPORT PRICE SHOULD RECOGNIZE THE PREMIUM VALUE OF NATURAL GAS AS AN ENERGY SOURCE. THE BRIEF ADMITS THAT THE PRICE OF ALTERNATIVE ENERGY IN THE NORTHWEST MARKET AVERAGES ONLY \$1.65 AT FEBRUARY 1, BUT ARGUES THAT IS A TEMPORARY SITUATION DUE TO EFFECTS OF RECESSION.

4. ALBERTA, WHICH HAS HALF THE EXPORTS, HAS NOT TAKEN A POSITION ON GAS PRICES. BUT, PREMIER LOUGHEED TELLS ME, IT WILL BE UNDER PRESSURE TO JOIN BC ON \$2.00 GAS, AS THE PRICE FOR BC'S SUPPORT FOR ALBERTA'S \$10.00 OIL.

5. ACTION REQUESTED: WOULD LIKE TO EXPLORE WITH YOU INSTRUCTIONS (BASED ON SOUND PRICING DATA RELATIVE TO COMPETING AND ALTERNATIVE ENERGY SOURCES IN THE U.S., PARTICULARLY PACIFIC NORTHWEST) ASKING EMBASSY OTTAWA TO RAISE THE NATURAL GAS EXPORT PRICING ISSUE WITH THE GOC AT HIGH LEVEL FOR PURPOSE OF QUESTIONING ECONOMIC VALIDITY OF INCREASE AS LARGE AS B.C. DESIRES AND OF SECURING VERY GRADUAL PHASE-IN OF ANY PRICE INCREASES THAT MAY BE APPROVED TO LESSEN IMPACT ON U.S. CONSUMERS. SUPPORTING PLAY MIGHT BE TO HAVE CONGENS CALGARY AND VANCOUVER INFORM PROVINCIAL GOVERNMENTS OF APPROACH BEING MADE TO GOC IN OTTAWA. THAT WOULD RECONFIRM US GOVERNMENT INTENT TO PROVINCIALS, AND HOPEFULLY GIVE LOUGHEED SOMETHING TO RESIST B.C. WITH. LOUGHEED MAY USE OCCASION TO ASK FOR EVENTUAL FAVORABLE CONSIDERATION OF PETROCHEMICAL TARIFFS. WE COULD JUDGE THAT ON MERITS.

ENDERS

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